

**What is predatory lending?**

Predatory lending is a broad term for a variety of unfair, deceptive or abusive lending practices, all of which strip wealth or income from borrowers. Predatory loans have very high interest rates and fees. And, unlike standard loans, the cost of predatory loans has very little to do with the risk involved.

Q. Are predatory loans illegal?

A. Predatory loans may be unfair and abusive, but they are not always illegal unless their terms violate state or federal lending laws or the borrower was misled or defrauded when the loan was initiated. Keep in mind that companies engaging in these practices are very good at skirting the law without breaking it.

Q. What makes a loan predatory?

A. There is no legal definition for a predatory loan, but loans are generally considered “predatory” if a lender or broker: (a) employs deceptive, misleading or fraudulent practices to convince a borrower to agree to an unfair or abusive loan, or; (b) a lender or broker convinces a borrower to accept a more expensive loan than they otherwise could have obtained.

Q. Are predatory loans limited to mortgages?

A. Predatory lending practices are employed by many industries. An excellent example of a predatory lending practice takes place in the rent-to-own (RTO) industry. An RTO arrangement is really a consumer credit sale disguised as a lease, and RTO companies are nothing more than sellers of furniture, appliances, electronics, and mobile homes that “sell” their goods using lease agreements instead of installment sales contracts. By structuring the sale as a lease, RTO companies avoid the restrictions of retail installment loan laws, including interest rate caps and disclosure requirements. That means they are essentially free to charge outrageous rates without disclosing them to the consumer. For example, if you lease a \$300 sofa at \$16 per week for 52 weeks, the total cost to have that sofa in your home for a year would be \$832, which is equivalent to an annual percentage rate of 254%!

Q. How do I know if I have an illegal predatory mortgage loan?

A. This can be difficult, because a loan can be abusive or predatory without being illegal. For example, an adjustable rate mortgage with a hidden or difficult to interpret provision that results in your payment literally exploding after a few months or years can certainly be viewed as abusive, but is not necessarily illegal. But, if these material provisions were not disclosed to you in the manner prescribed by law, the result can be different. A licensed attorney can help analyze your loan for legal violations.

Q. What is a loan modification?

A. A loan modification, or workout, is a modification of the terms of an existing home loan contract to make the payments more affordable for the borrower. Depending on the circumstances, a workout/modification may result in rate reductions, principal reductions, refinancing from an adjustable to a fixed interest rate, or a deed in lieu of foreclosure.

Q. Can the terms of any home loan be modified to make it affordable?

A. Not every homeowner will qualify for a loan modification, and is not the right choice for every homeowner.

Q. Do I need an attorney for a loan modification?

A. You are not required to retain an attorney to help modify your loan, just like you don't need an attorney to represent you in a lawsuit. But the fact that you don't need an attorney doesn't mean it's a good idea to proceed without one. When it comes to negotiating a home loan, prudent borrowers are advised to retain a competent and experienced professional to represent their interests. Remember, your lender has an army of attorneys at its disposal. You should have one, too.